



Missouri Department of Elementary and Secondary Education

— Making a positive difference through education and service —

December 18, 2003

TO: School District Administrators

FROM: Gerri Ogle, Associate Commissioner, Administrative and Financial Services
Denise Pierce, Director, School Finance
Tom Quinn, Director, School Governance

RE: December Financial/Governance/Transportation Information

Prior Year (2002-03) Foundation Formula Recalculation

Each year the Department recalculates the Foundation Formula for the prior year to ensure the highest actual eligible pupil (EP) numbers are used for each district. In FY04 each district's formula allocation for FY03 is being recalculated using the highest EP figure from 2000-01, 2001-02 or 2002-03. For some districts there is no change in the EP count from the June 2003 calculation to the recalculation occurring this year. Some districts, however, were paid on an EP count that was higher or lower than the highest actual figure from the past three years.

You may recall that, in November 2002, as a result of the passage of House Bill 1711, it was necessary for the Department to calculate the amount due to districts by adding two months of the calculation (for July and August, the time prior to the effective date of the law) and ten months of the calculation (for the time after the effective date of the law). During the last school year, adjustments that were made to payments throughout the year (as a result of normal changes in districts' data and the state withholdings) were applied only to the ten-month calculation. The FY03 recalculations made in October and November 2003 also only adjusted the ten-month calculation.

As Commissioner King stated in his December 11, 2003 letter to school administrators, we have now determined that it is necessary to recalculate the original two-month calculation that was made in November 2002 and adjust this to reflect the actual EP counts and the actual amount that was distributed through the formula in FY03, after state withholdings. Districts whose November 2002 two-month calculation reflected an EP higher than the greatest of the three years previously mentioned will see the greatest negative adjustment for FY03 while other districts will only be affected due to proration factor changes. Districts whose correct payment EP is higher than that used in November 2002 may have a positive adjustment to FY03. This revised recalculation will be made in January 2004 and again in June 2004. Prior year recalculations will not be made during December 2003 or the months of February through May, 2004. Most all districts will see either a positive or negative adjustment in their FY03 allocation.

The 2002-03 proration factors have changed from the June 2003 factors as follows:

2-month calculation

| | <u>Line 1A & 14A</u> | <u>Line 1B & 14B</u> |
|--|--------------------------|--------------------------|
| November 2002 SASM 1355 (2 Month Calculation-Current Year) | 0.97914239 | 0.92914239 |
| Estimated January 2004 Recalculation | 0.952xxxxx | 0.902xxxxx |

10-month calculation

| | <u>Lines 1A & 14A</u> | <u>Lines 1B & 14B</u> |
|--|---------------------------|---------------------------|
| June 2003 Proration Factors | 0.97128967 | 0.92128967 |
| October 2003 Recalculation of the 2002-03 Proration Factors | 0.96818065 | 0.91818065 |
| November 2003 Recalculation of the 2002-03 Proration Factors | 0.96808305 | 0.91808305 |
| Estimated January 2004 Recalculation | 0.971xxxxx | 0.921xxxxx |

Current Year (2003-04) Proration Factors

Gov. Holden announced on December 2, 2003 the release of a total of \$83 million in funding for public education. This action was made possible because the state received this amount of federal funding for social services earlier than usual. As a result, state money that would have been used for Medicaid expenses can be released and used to cover some of the withholdings that had been imposed on education for this fiscal year.

Of the \$83 million released, \$75 million will be allocated to school districts through the Foundation Formula; \$8 million will be released to higher education institutions. This represents the same proportion in which funding had been withheld from K-12 and higher education for this year.

The December calculation of the 2003-04 Basic Formula and Line 14 amount for each school district will reflect the additional \$75 million. The actual December payment reflects the distribution of \$37.5 million so that the year-to-date payment reflects half of the \$75 million. One-sixth of the remaining \$37.5 million will be distributed in each of the remaining months.

The current year proration factors for December increased due to the release of the \$75M.

| | <u>Lines 1A & 14A</u> | <u>Lines 1B & 14B</u> |
|---|---------------------------|---------------------------|
| September 2003 (Current Year) Proration Factors | 0.87907154 | 0.82907154 |
| October 2003 (Current Year) Proration Factors | 0.87754616 | 0.82754616 |
| November 2003 (Current Year) Proration Factors | 0.87607301 | 0.82607301 |
| December 2003 (Current Year) Proration Factors | 0.89453280 | 0.84453280 |

Commissioner King's email of December 2, 2003 informing administrators of the additional \$75 million provided estimated December proration factors of .89 (Lines 1A and 14A) and .84 (Lines 1B and 14B). Using the November calculation and adding \$75 million raised the proration factors for a simulation from the November actual factors to .89600118 and .84600118, respectively. Then, applying the data changes made by districts that would have affected the December calculation regardless of more or less money, the factors dropped approximately .0015. Data changes will continue to occur and the factors are likely to continue to decrease from this new increased level. By June 2004, the factors are likely to be approximately .89 and .84, respectively.

Please remain very cautious in your spending for the current year and your planning and budgeting for next year.

2004-05 Basic Formula and Line 14 Budget Request

The 2004-05 budget request adopted by the State Board of Education includes an increase of \$715 million above the 2003-04 appropriation for the Basic Formula and Line 14. This is the amount estimated to achieve a proration factor of 1.00 in 2004-05 with a GTB of \$155,536. This projection accounts for increasing assessed valuations, eligible pupils, free and reduced eligible pupils, and tax rate changes. As you have heard from other sources, the requested increase in funding for FY05 is much greater than the projected growth in total state revenue. Approval of the request is unlikely. Therefore, allocating limited FY05 resources will be even more challenging for the legislature than it was in FY04. *The district should project 2004-05 formula funding using proration factors for various levels of funding.* The proration factors for the two most optimistic situations are:

| | <u>Lines 1A, 14A</u> | <u>Lines 1B, 14B</u> |
|---|----------------------|----------------------|
| FY05 funding equals FY04 funding before withholding | .86 to .87 | .81 to .82 |
| FY05 funding equals FY04 funding after withholding (\$75 million released) | .83 to .84 | .78 to .79 |

If the FY05 funding is less than the FY04 funding after withholding, the proration factors will be further reduced. Further reduction in funding is possible. Some individuals and/or organizations are suggesting .75/.70 as the likely proration factors. Some predictions are even lower. Such factors are possible depending on the level of additional reductions. Continue to be conservative in your projections. When more information is known about funding, revised proration factor estimates will be provided. Even if the FY05 funding equals the FY04 funding after withholding, districts will not receive the same amount of state money in FY05 as FY04 as the formula is sensitive to the changes in eligible pupils, tax rates, assessed valuations, free and reduced lunch eligible pupils, etc. Please use the Basic Formula Calculation Program tool on the web at <http://dese.mo.gov/divadm/finance/tools/>.

2004 ACH Transmittal Dates (Repeated from November)

The 2004 Automated Clearinghouse (ACH) transfer dates as provided by the DESE Accounting Section are:

| PROPOSITION C | REGULAR SCHOOL PAYMENT |
|--------------------|------------------------|
| January 15, 2004 | January 21, 2004 |
| February 13, 2004 | February 20, 2004 |
| March 15, 2004 | March 22, 2004 |
| April 15, 2004 | April 21, 2004 |
| May 14, 2004 | May 21, 2004 |
| June 15, 2004 | June 21, 2004 |
| July 15, 2004 | July 21, 2004 |
| August 13, 2004 | August 20, 2004 |
| September 15, 2004 | September 21, 2004 |
| October 15, 2004 | October 21, 2004 |
| November 15, 2004 | November 22, 2004 |
| December 15, 2004 | December 21, 2004 |

Audit Submission Extension Deadline (December 31) – Final Notice!

The 2001-02 and 2002-03 audit reports were due by **October 31, 2003**. Section 165.121(4), RSMo allows for an extension beyond the required October 31 audit submission deadline for a period of time "not to exceed sixty days". A sixty-day extension was granted to districts requesting it. However, state law does not authorize or allow an extension beyond sixty days (December 31). Section 165.121, RSMo, further states that for districts with an audit report "not filed within the period or extension thereof, further state aid to the district shall thereafter be withheld until the audit report has been received by the department of elementary and secondary education" (emphasis added).

If an extension was granted and the audit report is not postmarked by December 31, 2003, the January 2004 Basic Formula and Line 14 money shall be withheld. That payment will be released with the February payment if the audit report is received by the time the February payment is processed by DESE. Otherwise, the payment will continue to be withheld until the next regular payment to the district after receipt by DESE of the audit report. The school district is responsible for sending to School Finance a copy of the audit report, accompanying management letter issued by the independent auditor, if applicable, and a copy of the board minutes indicating approval of the audit report. The audit report may be submitted to DESE prior to board approval. The district is not expected to have a special board meeting at the end of December to approve the audit report. The board minutes may be mailed at a later date.

Audit Report Filing Requirements

In addition to sending one copy of the audit report to DESE, School Finance Section, the following are federal filing requirements:

- School districts that expend more than \$300,000 in federal funds (in total, not per program) are required to submit a data collection form and reporting package to the Federal Audit Clearinghouse at the U.S. Bureau of Census within the earlier of 30 days from the receipt of the audit report or nine months after the end of the audit period (March 31, 2004). The reporting package consists of the complete audit (financial statements and auditor's reports) and, as necessary, a summary schedule of prior audit findings and a corrective action plan for current year audit findings. Reports should be submitted to:

**Federal Audit Clearinghouse
Bureau of the Census
1201 E. 10th St.
Jeffersonville, IN 47132**

- School districts whose audit report disclosed current or prior year findings and questioned costs related to **direct** federal assistance (directly from a federal agency rather than through DESE) are required to submit the data collection form and reporting package to each federal department or agency that provided federal assistance funds no later than 30 days after receiving it from the auditor.
- School districts that expend less than \$300,000 in total federal funds are not required to send a copy of the audit report to the Federal Audit Clearinghouse.

A School Day of Less Than Three Hours

As the potential for severe weather increases, the possibility of an early release from school becomes greater. Section 160.041.1, RSMo, states that a minimum school day consists of at least 3 hours. Section 171.031.1, RSMo, requires the school board to provide a

minimum term of at least 174 days and 1,044 hours of instruction. Section 163.021.1, RSMo, requires compliance with the minimum term for eligibility for basic state aid. If a school day ends before the minimum three hours of class time, this day does not count toward the 174 day requirement and the hours do not count toward the 1,044 hour requirement. The day is not a legal school day and the hours/day do not count for state aid purposes. Such hours are not to be counted as a part of the calendar and the attendance hours are not reported on Core Data, screen 14, for the ADA calculation for state aid purposes.

Use of Professional Development (1%) Money for Equipment

There have been requests to purchase equipment with the 1% Professional Development money and, likewise, code the expenditure to Function Code 2214, Professional Development. Capital outlay (equipment) is not an allowable expenditure for professional development purposes to meet the requirement to expend 75% of 1% of the current year Basic Formula apportionment for professional development purposes. Expenditures for capital outlay under Function Code 2214 must be reclassified into another expenditure function code (such as Function Code 2213, Instructional Staff Training Services). Function Code 2214 in the Capital Projects Fund is closed in the Annual Secretary of the Board Report (ASBR) WEB program.

SCHOOL GOVERNANCE

There are no School Governance topics this month.

SCHOOL TRANSPORTATION

2003-04 Second State Transportation Aid Calculation

A copy of the school district's December 2003 state transportation aid calculation (BU110) for the 2003-04 payment cycle is located on the school transportation website at <http://dese.mo.gov/divadm/trans/ReportIndex.html>. This is the second live state transportation payment made for the current year. The calculation is based on 2002-03 school year data submitted by the district on the state transportation aid documents (Application for State Transportation Aid, School Bus and Facility Depreciation Schedules) and the Annual Secretary of the Board Report.

The percent of reduction to the calculated entitlement computed for the December 2003 payment is 31.598040%. This reduction percentage represents the amount the entitlement exceeded the appropriation and will fluctuate from month to month as revisions are made to individual school district data.

For districts using the transportation aid calculation computer program, the December 2003 state constant for the A factor is 2.281348 and the B factor is 1.441930.

Transportation Calculation Excel Spreadsheet Website Link

A Microsoft Office Excel spreadsheet of the transportation aid calculation is located on the school transportation website under Entitlement Calculation. Districts may download the program and enter the ridership, mileage, expenditure and revenue data and the program will calculate the district's transportation aid based on the data entered. The district may then save the program on its computer for future use. The proration percentage and the state constant A and B factors should routinely be updated with the latest actual data and/or projected numbers, in order for the calculation to be as accurate as possible.

Transportation FAQ's

A listing of frequently asked transportation-related questions is available on the school transportation website at <http://dese.mo.gov/divadm/trans/faq.html>. This listing includes general transportation questions and answers, as well as questions and answers relating to school transportation funding, and drivers and licensing issues. A list of contacts for transportation-related information is also provided.

The staff in School Administrative Services wishes you a safe and happy holiday season.

DESE Homepage Address: <http://dese.mo.gov>